

D.T.E. 02-72

Petition of Bay State Gas Company, pursuant to G.L. c. 164, §§ 76, 76A and 94 to use a new internal financing vehicle and to continue collecting financing charges associated with its gas inventory through the Cost of Gas Adjustment Clause.

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I. INTRODUCTION

On November 6, 2002, Bay State Gas Company (“Bay State” or “Company”) filed with the Department of Telecommunications and Energy (“Department”) a request to use a new internal financing vehicle and to continue collecting financing costs associated with its gas inventory through the Cost of Gas Adjustment Clause (“CGAC”). The Company proposes to use the NiSource, Inc. System Money Pool (“Money Pool”) as a replacement for its Fuel Purchase Agreement with BayNor Energy, Inc. (“BayNor”) to take advantage of the lower fuel inventory financing available through the Money Pool and to continue collecting such financing costs through the CGAC. The Department docketed this matter as D.T.E. 02-72.

On December 3, 2002, the Attorney General of the Commonwealth (“Attorney General”) filed a notice of intervention. Pursuant to notice duly issued, the Department held public and evidentiary hearings at the Department’s offices on December 12, 2002. At the evidentiary hearing, the Company presented one witness in support of its petition: Vincent Rea, assistant treasurer of Bay State and Director of Treasury and Corporate Finance for NiSource Corporate Service, Inc. Bay State filed a brief on December 23, 2002. The evidentiary record consists of 26 exhibits.

II. DESCRIPTION OF COMPANY’S PROPOSAL

Since 1982, Bay State has financed its gas inventory held for future use through its Fuel Purchase Agreement with BayNor and other related agreements (“BayNor Arrangement”) (Exhs. BSG-2, at 3-4; BSG-4). Under the BayNor Arrangement, the Company pays the cost associated with the gas inventory itself as well as an increment that represents BayNor’s cost of

performing its duties under the agreement, including financing costs and associated fees (Exh. BSG-2, at 4). The BayNor Arrangement, however, expired on December 24, 2002.¹

As a replacement for the BayNor Arrangement, Bay State proposes to use the Money Pool as its inventory financing vehicle (Exh BSG-1, at 1). Bay State also proposes to continue to recover the fuel financing inventory costs of the Money Pool through the Company's CGAC, pursuant to G.L. c. 162, §§ 76, 76A, 94 and 220 C.M.R. § 6.06, as it has since 1982 (id.).

Bay State explains that the Money Pool was previously approved by the Department in Bay State Gas Company, D.T.E. 01-75 (2001) (id.). Bay State claims that by using the Money Pool it may be able to take advantage of lower fuel inventory financing costs (Exh. BSG-2, at 3). The Company calculated and compared the costs of the BayNor Arrangement and the costs that would be incurred using the Money Pool to finance gas inventory costs and found that the total borrowing costs using the Money Pool would be lower (Exhs. BSG-2, at 7; BSG-6).² The Company states that there is state and federal oversight of its use of the Money Pool as a financing vehicle because: (1) the applicable interest charges for Bay State's participation in the Money Pool are readily determinable and recorded, and will be identified for Department

¹ Bay State states that it has several options available for interim financing, including working capital, use of the Money Pool, or another financing arrangement with NiSource, Inc. or NiSource Finance (Tr. at 28-29).

² Bay State learned that the fees associated with the letter of credit supporting the BayNor commercial paper would increase significantly, by 90-100 basis points, if the BayNor Arrangement were extended (Exh. BSG-2, at 4; Tr. at 18-19). Bay State investigated other potential sources for provision of a letter of credit and determined that current market prices would require the letter of credit to increase by approximately 90-100 basis points (Exh. BSG-2, at 3-4; Tr. at 19-20).

review in semi-annual CGAC filings; and (2) the operation of the Money Pool is governed by the Securities and Exchange Commission, which allows federal review (Company Brief at 5).

III. ANALYSIS AND FINDINGS

When approving the Money Pool in Bay State Gas Company, D.T.E. 01-75, the Department found that the Company and its ratepayers would realize monetary savings through the use of the Money Pool. The Department also has found that the use of money pool arrangements by gas distribution companies to finance their inventory requirements is consistent with the requirements of 220 C.M.R. § 6.06. That regulation permits gas companies to finance their inventory requirements through trust-type or similar arrangements, upon a finding that the cash-pooling agreement provides the most cost-effective option for the distribution company and its ratepayers. Fitchburg Gas and Electric Light Company, D.T.E. 99-32, at 7 (1999)

With regards to the current proposal, the Company has demonstrated that the use of the Money Pool to finance gas inventory costs would result in monetary savings greater than other financing options available to Bay State (Exhs. BSG-2; BSG-6). Furthermore, the operation of the Money Pool is subject to external regulatory oversight on both the state and federal level. Therefore, the Department finds that Bay State's proposal to use the Money Pool as its fuel financing vehicle is reasonable.

The Company's continued collection of inventory financing costs through the CGAC is consistent with Bay State's past practice, tariff, and 220 C.M.R. § 6.06. The Department finds that Bay State's proposal to continue such collection through the CGAC is reasonable and, therefore, allowed.

IV. ORDER

Accordingly, after due notice, hearing and consideration, the Department hereby:

ORDERED: That the Department approves and authorizes Bay State's use of the Money Pool as its fuel financing vehicle; and it is

FURTHER ORDERED: That the Department approves and authorizes Bay State Gas Company to continue such collection through the Cost of Gas Adjustment Clause.

By Order of the Department

Paul B. Vasington, Chairman

James Connelly, Commissioner

W. Robert Keating, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).